

GASB STATEMENT NO. 34 Frequently Asked Questions & Answers

Welcome to the Louisiana Local Government Task Force's Questions and Answers

The task force is accumulating questions and answers as local governmental entities begin implementing GASB Statement No. 34. This will provide a central location where all governmental entities in Louisiana can use to determine if the question they have has been already addressed or to submit the question for a solution. (Comments and answers are not authoritative)

How to Submit a Question:

If you have a question about implementation, please send the question to:

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Gary will obtain a proposed solution to the question and will send it to you. He will also add the question and answer to this web page.

How to Use this Web Page:

Ø To look at questions and answers about a particular topic, click on the subject in the Table of Contents below.

Ø When you have finished looking at questions in one section, click on "BACK" to return to the Table of Contents. You may then select another topic by clicking on that subject.

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I. General

Q1 - What steps did you take to plan for the implementation of GASB Statement No. 34?

A - (City of Guymon, Oklahoma - population approximately 9,000) The biggest part of planning was made with regards to infrastructure. I knew we could not complete the project in the time allotted if we had to physically measure every street placed in service since 1980. So I scheduled a time to meet with an individual from our planning department to go with me to the courthouse to read plats. We recorded measurements of the streets, dates placed in service, curb and gutter lengths, types of material used to construct the streets, and fire hydrants. All of this information was obtained in an afternoon. I then gave that information to our contract engineer who quoted a cost per linear foot in current prices. After that it was easy to apply a price index factor to come up with estimated cost and calculate accumulated depreciation. Then I read through minutes of the council meetings back to 1980 to research other infrastructure items such as major street improvements and traffic lights.

I downloaded the May 1999 examples of financial statements from GASB's web site so I wouldn't have to start from scratch in preparing the reports. I'm not sure I would recommend others do that though because there were a lot of changes that had to be made and it might have been easier to just make my own. But at least I knew what options were available.

I estimated the time it would take to complete the project based on the time it took to complete our CAFR the first year. I started in August 1999 and completed in January 2000. Of course you can never plan for unexpected events and we had some of those during that period.

Q2 - What surprises occurred, if any--both good and bad?

A -- (City of Guymon, Oklahoma - population approximately 9,000) In a word .GASB 33. We thought we had considered everything about GASB 33 that would be applicable to us but as we got down to the final review with the auditors, there were some items that we had forgotten to consider with respect to deferred revenue.

Also, we struggled with segment information. While we could specifically identify some assets and liabilities, others such as cash and accounts payable could not be separated. So we opted out of preparing the condensed financial statements. In my opinion, if we are expected to do this, we might as well just set up separate funds for each activity.

This is perhaps a minor item but something that might be of interest to others. The example financial statements in GASB 34 do not have the reference to the notes on the bottom. We almost issued our reports without that all-important notation.

We discovered that when preparing the notes and trying to tie total amounts to the financial statements, that total cash and investments in the note about custody credit risk did not tie to the entity-wide balances. The reason--the Statement of Activities does not include agency funds.

Also, there was a lot of work that had to be done to the current notes. While GASB 34 has good examples for the new notes, there was nothing to go by for re-wording existing notes. Everywhere there was a reference to "fund type", we had to change the wording. Also, we had to do separate explanations for government-wide financial statements vs. fund financial statements with regards to basis of presentation, measurement focus, basis of accounting, capital asset accounting, long-term debt accounting, etc. And also had to explain classification of major vs. non-major and re-arrange explanations of our funds on that basis.

Another surprise was that we now have to show depreciation (in the notes) by type of asset. We have never had to group depreciation that way before and it took some doing to prepare additional spreadsheets for that information.

Q3 - How much assistance and what type of help did you get from your auditors?

A - (City of Guymon, Oklahoma - population approximately 9,000) We communicated with our auditors quite frequently. I let them know how I was handling the infrastructure issue to be sure there wouldn't be any surprises when they came to audit. Any questions we had, we immediately called. A lot of times we found that neither of us could answer questions, so then the auditor called someone at GASB. Our auditor has worked closely with GASB on this project. That helped tremendously since there was limited guidance on implementation. We may be different from most medium to small size governments because we prepare our own report. When the auditors came to do field work, they were given a draft of the report and made changes from there. Since I am the only one in my organization that worked on the report, I used the auditors as final reviewers.

Q4 - Has your council or commission or any local media representatives had any reaction to the new look of the financial report?

A -- (City of Guymon, Oklahoma - population approximately 9,000) This brings up another reason for early implementation. I had never taken the time to explain to our governing body or the public how to use the old CAFR because I knew that major changes were coming. Consequently, our old CAFR was rarely used by management (except me), the governing body, or the public. We held a public forum to explain highlights of the new model and received front page coverage in the local newspaper. The meeting lasted about an hour. Unfortunately, there was limited participation by the public. However, we had council members and several city department heads and employees attend. All comments received were extremely positive. They recommended I give the presentation to local civic groups. Last Friday I presented a condensed version of the program to the Rotary Club. Again we received positive comments--this time from local business leaders. One gentleman remarked, "What took them so long to come up with something like this. It's so simple to understand."

Q5 - Any suggestions or other comments you would like to make for government finance professionals regarding GASB 34 implementation?

A -- (City of Guymon, Oklahoma - population approximately 9,000) I've had some people question if we had to have two sets of books since we now have to report governmental funds on two basis of accounting. The answer to that is no. I just added two adjustment columns to my trial balance to get to the accrual basis numbers.

There have also been questions regarding cost. For us we estimate our audit costs will increase by 10% in the future simply because there are now more assets and depreciation to be audited. The implementation cost was swapped for single audit cost and we paid about \$400 for engineer's estimates. All-in-all we consider the cost well worth it.

Be sure to read the little footnotes in GASB 34. We missed one relating to proprietary fund presentation of revenues net of allowances (versus reporting allowances as an expenditure).

Q6 - Should the report include divider pages?

A - (Allen, Green & Company, Certified Public Accountants) There is no requirement to include report divider pages. However, the school board believes that divider pages in the report enhances the reader's ability to differentiate the assurances provided by the auditors.

Q7 - Does the school board qualify for reduced financial reporting as a special-purpose government as provided by GASB 34, paragraph 136?

A - (Allen, Green & Company, Certified Public Accountants) Paragraph 136 initially seems to indicate that a school board would qualify as a special-purpose government. However, GASB 34, paragraph 137, specifically states that a government that budgets, manages, or accounts for its activities as multiple programs should not be considered a "single-program." Furthermore, paragraph 137 gives an example of a school district that has regular instruction, special instruction, vocational education, and adult education within its education functional category. Accordingly, since the school board budgets, manages, and accounts for its activities as multiple programs, the school board would not qualify as a special-purpose government. Therefore, the annual financial report included the full financial package.

II. Basis of Accounting (Full Accrual vs. Modified Accrual)

Q1 - What are the adjustments necessary in converting governmental fund financial statements to government-wide financial statements for major accounts of a school board?

A - (Allen, Green & Company, Certified Public Accountants) The following adjustments were necessary to convert the governmental fund financial statements to the government-wide financial statements for the following major accounts of the school board for June 30, 1999 (initial implementation of GASB 34):

Ad valorem taxes - no adjustment necessary. Tax levy date is October 1, 1998 for the school board's fiscal year ending June 30, 1999. Therefore, at June 30, 1999, most taxes from this levy date have paid (tax sale was May 1, 1999). Taxes paid under protest and any unpaid taxes at June 30, 1999 were immaterial.

State revenue sharing - no adjustment necessary. Final installment of 1998 revenue sharing was received May 1999 (first installment received December 1998).

Sales taxes - no adjustment necessary. Modified and accrual basis are the same. Accrual made for sales taxes collected by merchants but not yet required to be remitted to the school board.

Earnings on investments - no adjustment necessary. Investments are in LAMP and earnings are received monthly. June 1999 interest was reported on the June 1999 LAMP statement that was received in July 1999. The school board did not record this interest in fiscal year June 30, 1999. Interest was less than the audit materiality level and an audit adjustment was passed.

Food service income - no adjustment necessary. School is out end of May 1999 and all collections received by cafeterias have been recorded for fiscal year June 30, 1999.

Restricted state and federal grants - no adjustment necessary. These are expenditure driven grants and accrual has been made for all expenditures incurred through June 30, 1999.

State unrestricted (MFP) - no adjustment necessary, based on the MFP formula and last payment for fiscal year June 30, 1999 was received and recorded in June 1999.

Annual and sick leave - record liability and debit fund balance for the annual and sick leave balance at June 30, 1998. For the current year, reverse the annual and sick payments made that were recorded as expenditures and debit the liability account. For the annual and sick leave earned during the current year, record as expenses and credit the liability account.

Interest expense (bonds) - record interest expense from date of last payment date through June 30, 1999. Determine the interest expense payable at June 30, 1998, and credit interest expense for the current year for this amount and debit fund balance.

Principal (bonds) - record liability at June 30, 1998 by debiting fund balance and crediting bonds payable. For the current year, credit principal retirement expenditure account and debit bonds payable.

Capital assets - record capital assets/accumulated depreciation at June 30, 1998 by crediting fund balance for the net (assets less accumulated depreciation). For the current year additions, credit expenditures and debit capital assets. For the current year retirements, debit accumulated depreciation, credit capital assets, and record the difference as gain or loss on disposal of capital assets. Record current year depreciation by debiting depreciation expense and crediting accumulated depreciation.

Payroll - no adjustment necessary. Payroll earned through June 30, 1999, is recorded as a payable.

Interfund receivable/payables and operating transfers - these are eliminated on the government-wide statements.

III. Management's Discussion and Analysis (MD&A)

Q1- Did writing the management discussion and analysis pose any problems?

A -- (City of Guymon, Oklahoma - population approximately 9,000) The biggest problem I had with MD&A was not repeating items already discussed in the

Transmittal Letter. Since in the initial year you can't do comparisons to prior year, there wasn't a whole lot to talk about regarding the entity-wide statements. I had hoped to not just copy the example but time constraints forced me to do so this year. Hopefully, next year I'll be able to add some of my own wording. Although I must say I really like how the example explains the use of the reports.

Q2 - GASB 34, paragraph 11b, requires that the MD&A include condensed financial information derived from the government-wide financial statements comparing the current year to the prior year. How does the school board include this comparative information if this is the first period of implementing GASB 34?

A - (Allen, Green & Company, Certified Public Accountants) Paragraph 145 of GASB 34 provides that in the first period that this Statement is applied, governments are not required to restate prior periods for purposes of providing comparative data for MD&A as required in paragraph 11. However, governments are encouraged to provide comparative analyses of key elements of total governmental funds and total enterprise funds in MD&A for that period. Also in the first year of implementation, MD&A should include a statement that, in future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

IV. Government-wide Financial Statements

A. Statement of Net Assets

Q1 - GASB. 34, Paragraph 30, allows the balance sheet to be in the traditional format of assets equal liabilities and equity, but encourages governments to report using the net assets approach with assets minus liabilities equaling net assets. Which format did this medium sized school board use?

A - (Allen, Green & Company, Certified Public Accountants) The school board did not have a preference; however, the net asset format was used since GASB 34 encourages this format.

Q2 - The present reporting model includes a memorandum only column totals for the balance sheet and the statement of revenues, expenditures and changes in fund balances. Is this column needed in the new reporting model?

A - (Allen, Green & Company, Certified Public Accountants) No. The design of the new reporting model discontinued the inclusion of other debits and credits for the account group columns. Therefore, the total columns represent true assets, liabilities and fund equity for the balances sheets/ statement of net assets, and accordingly no columns reflect memorandum only totals.

Q3 - Will unfunded pension liabilities be reported in the government-wide client's statements, since these statements are on an economic resource measurement focus and accrual basis of accounting (unlike the government funds which are reported

using the current resources measurement focus and modified accrual basis of accounting)?

A - (Allen, Green & Company, Certified Public Accountants) In a cost-sharing multiple-employer plan, if the government is making the required contributions, no additional liability or asset is recorded (GASB Cod. Section P20.116)

IV. Government-wide Financial Statements

B. Statement of Activities

Q1 - This medium sized school board includes in its annual financial report approximately fifteen expenditure functional categories. Will the school board be required to allocate depreciation expense to each functional category? This may be fairly difficult considering the School board has assets that are used in multiple functions.

A - (Allen, Green & Company, Certified Public Accountants) GASB 34, paragraph 44, stipulates that depreciation expense on capital assets that can specifically be identified with a function should be included in its direct expenses. If an asset is shared by one or more function, the depreciation expense must be allocated to those functions. However, depreciation expense on assets that essentially serve all functions is not required to be included in the direct expenses of all functions.

The school board elected not to allocate depreciation expense on assets that generally serve all functions of the government. This depreciation expense was charged to general administration.

For shared assets, such as school buildings that serve both the instructional area and support areas, the challenge was establishing the percentage of use by function. For example, how much of the building cost should be charged to regular instructional program, special instruction program, other instructional program, school administration, food services and etc.?

The school board allocated the cost of buildings and the corresponding depreciation expense to the respective function based on the estimated square feet of use by each function to the total square feet in the buildings. [Cost/benefit issue as there are numerous methods that can be used.]

Q2 - This medium sized school board receives a significant amount of grants direct from federal agencies and indirectly through the Louisiana Department of Education. Will it be necessary to separate out the capital portion of any grants received?

A - (Allen, Green & Company, Certified Public Accountants) GASB 34, Paragraph 50, requires that grants and contributions received be segregated between operating revenues and capital grants. Therefore, the segregation of these items is required.

The school board's effort in distinguishing between operating grants and capital grants was determined by reviewing the budgets for each of the federal awards. Generally, the budgets that identified capital outlay were coded to 700 expenditures versus the 100-600 codes.

Q3 - GASB 34, paragraph 50, requires the government to report revenues segregated by program revenues and general revenues. This medium sized school board receives sales tax revenue and property tax revenue dedicated to the payment of salaries. Since the revenues can be specifically identified with a function, should the revenue be reflected as program revenue?

A - (Allen, Green & Company, Certified Public Accountants) GASB 34, paragraph 52, requires all taxes to be reported as general revenues even though they may have been levied for a specific purpose. Accordingly, sales tax and ad valorem taxes were reported as general revenues.

Q4 - The new government-wide statement of activities reflects, in addition to expenditures being reflected by functional categories, that the program revenues also be reported by functional categories. The issue is whether state and federal grants for this medium sized school board are required to be charged to the various functional expenditure categories?

A - (Allen, Green & Company, Certified Public Accountants) Yes. Revenues from state and federal grants that provide funding for several functions will be required to be reported by functional categories. This required the school board to break out the revenues by functional categories.

Since many of the federal grants are on a cost-reimbursement basis and are included in separate funds for accounting purposes, the analysis of the revenue by function is easier than was first thought.

V. Capital Assets

Q1 - As a city (City of Guymon, Oklahoma--population approximately 9,000), I presume you own infrastructure assets. What records did you have of these assets prior to beginning implementation of GASB 34?

A -- We had all utility infrastructure already in place (i.e., water, sewer, gas lines, etc.). The only other major infrastructure we had to consider was streets, curb and gutter, and traffic lights.

Another item to consider here is that while we did have accumulated depreciation for most of our governmental assets, I never took the time to verify the accuracy of those amounts. Now that we have to record depreciation on those assets, I had to work at making sure the amounts were calculated correctly. After the auditors

arrived, we found that some amounts were not calculated correctly and had to make changes accordingly.

Q2 - Which method for reporting infrastructure -- estimated historical cost and depreciation versus the modified approach -- did you choose to use and why?

A -- (City of Guymon, Oklahoma - population approximately 9,000) We chose depreciation because for us it was the easiest once you get the initial inventory set up.

Q3 - If you choose estimated historical cost and depreciation for infrastructure assets, will you consider the modified approach in the future? Why or why not?

A -- (City of Guymon, Oklahoma - population approximately 9,000) It's not likely we'll go to the modified approach in the future because it's more cost effective to do depreciation than to have to do a condition assessment each year on every street. Plus depreciation is easier to audit (in my opinion) than condition assessment.

Q4 - How much trouble did you have in establishing the cost amounts for infrastructure?

A -- (City of Guymon, Oklahoma - population approximately 9,000) I knew we could not complete the project in the time allotted if we had to physically measure every street placed in service since 1980. So I scheduled a time to meet with an individual from our planning department to go with me to the courthouse to read plats. We recorded measurements of the streets, dates placed in service, curb and gutter lengths, types of material used to construct the streets, and fire hydrants. All of this information was obtained in an afternoon. I then gave that information to our contract engineer who quoted a cost per linear foot in current prices. After that it was easy to apply a price index factor to come up with estimated cost and calculate accumulated depreciation. Then I read through minutes of the council meetings back to 1980 to research other infrastructure items such as major street improvements and traffic lights.

Q5 - Should the general fixed assets schedule previously presented as supplementary information in the CAFR continue to be displayed (applicable for those entities that prepare CAFRs)?

A - (Allen, Green & Company, Certified Public Accountants) GFOA and ASBO International had not issued guidance on their certificate program for the new reporting model at the time the CAFR was being prepared. Again to maintain as much consistency in the report from the CAFR of June 1998 to the CAFR of June 1999, the general fixed assets schedules were rolled forward into the CAFR of June 1999. The title of the general fixed assets schedules were changed to general capital assets schedules to conform with the new terminology in GASB 34. Also, we believed the schedules included valuable information that should be continued and that by

deleting the information from the annual reports would increase the probability that this information may be lost.

Q6 - Does a school board have infrastructure assets? Are driveways, parking lots, walkways and canopies, football stadiums and tracks, and fences considered infrastructure assets?

A - (Allen, Green & Company, Certified Public Accountants) This issue was debated. GASB 34, paragraph 19, provides a definition of and gives examples of infrastructure. The examples given in paragraph 19 are roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets for purposes of GASB 34.

This medium sized school board concluded that the driveways, parking lots, walkways and canopies, tracks, and fences were more properly classified as exhaustible land improvements. The football stadiums would be classified as buildings.

The benefits of treating capital assets as infrastructure would be the exemption permitted for small governments by GASB 34 from retroactive reporting of infrastructure, and the use of the modified approach, an alternative to depreciation. The school board had already capitalized the items in question, and had decided to use the depreciation method for all capital assets. Therefore, the potential benefit of treating capital assets as infrastructure was immaterial.

Q7 - What estimated useful lives should be used for capital assets for calculating depreciation expense?

A - (Allen, Green & Company, Certified Public Accountants) Providing guidance to local government for estimated useful lives of capital assets is a project of the GASB 34 Louisiana Local Government Implementation Task Force. This guidance should be available by the first quarter of 2001.

Q8 - What amount is used for the salvage value of depreciable assets?

A - (Allen, Green & Company, Certified Public Accountants) This is a project of the Louisiana Local Government Implementation Task Force and guidance will be provided by the first quarter of 2001. For this particular medium sized school board, they have a practice of using capital assets, except for vehicles, until they are completely worn out, and either abandoned, junked or used as parts. Therefore, salvage value was established for vehicles only. The school board's recent experience reflected that the trade-in allowance for vehicles was approximately ten percent of original purchase price. Accordingly, a ten percent salvage value was established for vehicles.

Q9 - What depreciation method does this medium sized school board use?

A - (Allen, Green & Company, Certified Public Accountants) GASB 34, paragraph 161, allows a government to use any established depreciation method. The school board believed the straight-line method is the easiest method to apply and that it would provide a useful recognition of the using-up of the capital assets over the life of the asset. Also, the school board had no compelling reason to use any other method. Therefore, the school board used the straight-line method.

Q10 - Can land improvements be exhaustible?

A - (Allen, Green & Company, Certified Public Accountants) The initial reaction to this issue was that generally land and land improvements would not be considered exhaustible and subject to depreciation. However, as this medium sized school board and the auditors continued the process of the identification of capital assets and the study of what items would be exhaustible and subject to depreciation, we quickly realized that certain land improvements would be exhaustible. These items included parking lots, fences, and sidewalks and canopies. Accordingly, those items that could be segregated from the construction cost were depreciated individually. If not, the costs were depreciated as part of the building cost. Segregated costs for parking lots, fences, and sidewalks and canopies were depreciated over twenty years. Buildings were depreciated over forty years. Annual depreciation expense would be effected some by whether the cost was segregated or included as part of the building cost. However, the auditors concluded that the depreciation expense would not materially differ in these two situations.

Q11 - The biggest issue for implementing the new reporting model for this small police jury was identifying infrastructure assets. What were the procedures for identifying the infrastructure assets?

A - (Allen, Green & Company, Certified Public Accountants) The first decision was to determine the type of report to be issued. The police jury decided to issue financial statements for the primary government and certain component units (parish library, criminal court fund, and community action association).

We met with the secretary/treasurer and the road and drainage supervisor to discuss potential infrastructure assets. We also reviewed the list of capital assets for the purpose of identifying any other infrastructure assets. For example, recreational areas and boat ramps, airport, and a pumping station was found on the police jury's capital assets listing. These assets were considered for inclusion in the infrastructure assets.

From the meetings and discussions we obtained a good understanding of what infrastructure assets were included in the parish. Also, we became aware of the police jury's responsibility for drainage in the rural areas of the parish. From these meetings and discussions we developed the following list of infrastructure assets:

- Roads
- Bridges
- Drainage, including watersheds
- Boat ramps and recreational areas
- Airport

Although there are other infrastructure assets in the parish, such as water and sewer systems, these are accounted for in component units which are not included as part of the police jury's annual financial statements.

Q12- Can this small police jury qualify for exemption as a small government entity (annual revenues less than \$10 million) from retrospectively reporting infrastructure assets?

A - (Allen, Green & Company, Certified Public Accountants) Yes. The annual revenues of the police jury are approximately \$4 million. Although the police jury is exempt from retrospectively reporting, the GASB encourages even small governments to retrospectively report infrastructure assets. Considering the dollars spent for infrastructure assets and the statement of net assets is being reported on an economic resource measurement focus and accrual basis of accounting, the omission of infrastructure assets would omit significant assets. Although not an issue for this police jury, it would be advantageous to include infrastructure assets when there is significant related debt.

Q13- How did you identify the miles of roads that this small police jury is responsible for maintaining?

A - (Allen, Green & Company, Certified Public Accountants) The police jury had a rough list all roads and total miles by district. This list provided a good starting point, but did not include the number of miles for each road. We then contacted Don Carey, LA DOTD, and he provided a summary of roads maintained by the police jury. The summary only gave the total amounts for gravel roads and asphalt roads. Therefore, we asked Don Carey if he could provide the detail miles for each road. Don Carey provided a detail listing by miles for every road that agreed to the summary. In addition to the detail listing, Don Carey included a map of the parish that identified the roads by route numbers that corresponded to the detail listing. Although the information provided by Don Carey was last revised January 1, 1980, there were no significant changes in the number of miles of roads.

Q14 - How did you identify the surface types (gravel or asphalt) of roads that this small police jury is responsible for maintaining?

A - (Allen, Green & Company, Certified Public Accountants) The detail listing provided by Don Carey included the surface type. Since the detail listing was last revised January 1, 1980, we found that several roads or road segments were reverted from asphalt to gravel.

Q15- How did you identify the bridges that this small police jury is responsible for maintaining?

A - (Allen, Green & Company, Certified Public Accountants) The bridges were easy to identify because the police jury is provided annually with a detail list of bridges by the LA DOTD. This detail list includes all bridges, the location, year built, structure type, total length, and the number of spans. Federal regulations mandate that all bridges located on all public roads to be inspected, rated for safe load capacity and posted in accordance with the National Bridge Inspection Standards and that an inventory of these bridges be maintained. The police jury completes an annual certification of compliance that is adopted by resolution by the board and also maintains bridge inspection records.

Q16 - How did you determine the estimated historical cost of roads for this small police jury?

A - (Allen, Green & Company, Certified Public Accountants) We obtained detailed cost estimates from the road and drainage supervisor. These estimates provided the cost to construct a one-mile two-lane gravel road and a one-mile two-lane asphalt road (no four lane roads or concrete roads in the parish maintained by the police jury).

The date the roads were built was determined by reviewing filings at the clerk of court's office for dedication of right-of-ways and other information maintained by the police jury. Most of the roads were built during the 1950s to the 1960s.

The current cost to construct gravel and asphalt roads was calculated using the estimates provided by the road and drainage supervisor. Using the Price Trends for Federal-Aid Highway Construction obtained from the Federal Highway Administration web site (www.fhwa.dot.gov), we deflated the current cost to the estimated cost at the time of original construction.

Q17 - How did you determine the estimated historical cost of bridges for this small police jury?

A - (Allen, Green & Company, Certified Public Accountants) Many of the wood structure bridges have been replaced with modern concrete bridges. These replacements were funded with federal funds administered by the LA DOTD. LA DOTD was able to provide the cost for those bridges. All other bridges were constructed prior to 1980 and the police jury has elected not to capitalize those bridges.

Q18 - Was the modified approach used for reporting eligible infrastructure assets for this small police jury?

A - (Allen, Green & Company, Certified Public Accountants) No. Use of the modified approach requires a government to take complete condition assessments of eligible infrastructure assets at least every three years. GASB 34 stipulates that the condition assessments should be documented in such a manner that they can be replicated. The police jury weighed the cost of providing condition assessments with the cost of using the depreciation method and opted to use the depreciation method.

Q19 - What depreciation method did this small police jury use?

A - (Allen, Green & Company, Certified Public Accountants) GASB 34, paragraph 161, allows a government to use any established depreciation method. The police jury believed the straight-line method is the easiest method to apply and that it would provide a useful recognition of the using-up of the capital assets over the life of the asset. Also, the police jury had no compelling reason to use any other method. Therefore, the police jury used the straight-line method.

Q20 - How did this small police jury identify the drainage infrastructure assets?

A - (Allen, Green & Company, Certified Public Accountants) GASB 34 allows a four-year implementation period for reporting all infrastructure assets. Furthermore, for those networks for which information is available may be reported. The police jury had reported for the fiscal year December 31, 1999, all infrastructure assets except for drainage, including watersheds. The police jury expects the information for drainage to be available and included in the 2000 annual financial report.

Q21 - Are library books depreciable capital assets?

A - If library books are considered to have a useful life of greater than one year, they are capital assets and are depreciable. Because most library collections consist of a large number of books with modest values, group or composite depreciation methods (as discussed in GASB 34, paragraphs 163 through 166) may be appropriate. In certain situations, library books may be considered works of art or historical treasures and could be reported using the provisions in GASB 34 paragraphs 27 through 29.

VI. Fund Financial Statements

A. Governmental Funds

Q1 - Where should the reconciliation of the fund financial statements to the government-wide statements be located?

A - (Allen, Green & Company, Certified Public Accountants) GASB 34, Paragraph 77, allows flexibility in the presentation of the reconciliation of the fund financial statements to the government-wide financial statements. The summary reconciliation to the government-wide financial statements could be presented at

the bottom of the fund financial statements or in an accompanying schedule immediately following the appropriate fund financial statements.

This medium sized school board elected to present the reconciliations in separate schedules immediately following the appropriate fund financial statements. The separate schedule presentation minimized the cluttering of the fund financial statements and provided more space to explain the differences between fund-based and government-wide information.

Q2 - For school boards, will major funds change each year and therefore impact the comparability of the fund financial statements from year to year?

A - (Allen, Green & Company, Certified Public Accountants) The major funds for this medium sized school board are the two funds that will typically be major funds for all school boards-- the child nutrition program and Title I. Because the school board believes that these two funds are important to financial statement users and will enhance comparability, they will be reported as major funds each year.

Q3 - The child nutrition program (CNP) is treated differently in certain states. Some school boards treat the child nutrition program as a special revenue fund, while others treat the program as an enterprise fund. In Louisiana since the late 1980's the CNP has been treated as a special revenue fund. Does the new reporting model change the classification of the CNP fund?

A - (Allen, Green & Company, Certified Public Accountants) GASB 34, paragraph 67, revised the definition of enterprise funds by adding a stipulation that in any of three situations the school board is required to report an activity as an enterprise fund. The three criteria are:

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. 2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues. 3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

This medium sized school board has not in recent years financed the CNP with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Therefore the first criteria above is not applicable to the CNP.

We are unaware of any laws or regulations that require the activity's costs of providing services including capital assets (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues. Some school board cafeteria operations, excluding the costs of the facility, are profitable and build up the maximum reserve (three months expected expenditures) which is

allowed by the U.S. Department of Agriculture regulations. Other school board cafeteria operations, excluding the costs of the facility, require annual subsidies by the general fund for the excess of annual expenditures over annual revenues. Construction of cafeteria facilities and major renovations are typically financed by the School board through the issuance of bonds backed by the general credit of the School board.

The school board CNP fees and charges are generally designed to recover most of its operating costs. However, the CNP fees and charges are not designed to recover capital costs (such as depreciation or debt service).

We conclude that the CNP did not meet any of the three criteria that would mandate that the activity be treated as an enterprise fund-type; therefore, the school board treated the CNP as a special revenue fund.

Q4 - Combining schedules for nonmajor funds are not required, but may be presented as supplementary information, as permitted by footnote 36 to paragraph 75 of GASB 34. Should the CAFR include combining schedules for nonmajor funds?

A - (Allen, Green & Company, Certified Public Accountants) If the report had been an annual financial report rather than a CAFR for the certificate of excellence in financial reporting programs, the combining schedules probably would not have been included. However, because the report was being prepared for submission to the Government Finance Officers Association and the Association of School Business Officials International for their certificate programs, the combining schedules were included. At the time of the preparation of the CAFR occurred there was no guidance from GFOA or ASBO regarding the changes that would be occurring in the certificate programs in order to adopt to the new reporting model. The school board took a conservative approach by leaving the format and schedules as close as possible to the old reporting model. Secondly, the combining schedules were included to provide as much consistency between the CAFR of June 1998 and the CAFR of June 1999 with the thought that the more consistency the easier the report presentation would be to the school board.

Q5 - Were there any surprises in calculating major funds for this small police jury?

A - (Allen, Green & Company, Certified Public Accountants) Yes, considering a recent experience with a school board reporting on the new reporting model that had only one required major fund. We were startled by the fact the police jury being a much smaller government had eight major funds.

VI. Fund Financial Statements

B. Proprietary Funds

Q1 -

VI. Fund Financial Statements

C. Fiduciary Funds

Q1 -

VII. Notes to the Financial Statements

Q1 -

VIII. Required Supplementary Information Other Than MD&A

A. Budgetary Comparison Schedules

Q1 - Should the budgetary note continue to be part of the notes to the financial statements or be moved to the RSI, considering that the budgetary comparison schedule is reported as part of the RSI in the New Reporting Model?

A - (Allen, Green & Company, Certified Public Accountants) GASB Cod. 2300.106 requires budget related disclosure of the following items:

- Method of encumbrance accounting and reporting (GASB Cod. 2300.106 (3))
- Encumbrances outstanding (GASB Cod. 2300.106 (e))
- Material violations of finance related legal and contractual provisions (GASB Cod. 2300.106 (h))
- Any excess of expenditures over appropriations in individual funds (GASB Cod. 2300.106 (n))

GASB 34, paragraph 131, requires the budgetary comparison schedule (RSI) to be accompanied by information that reconciles the budgetary comparison information to GAAP information. Also, the notes to RSI should disclose any excess of expenditures over appropriations in individual funds. In addition, if the excess is considered to be a material violation of finance-related legal provisions, a disclosure in the notes to the basic financial statements is required.

We concluded that the following matters should be presented in the notes to the financial statements:

- Method of encumbrance accounting and reporting (GASB Cod. 2300.106 (3))
- Encumbrances outstanding (GASB Cod. 2300.106 (e))
- Material violations of finance related legal and contractual provisions (GASB Cod. 2300.106 (h))

We conclude that the following matters should be included in the notes to the RSI:

- Any excess of expenditures over appropriations in individual funds (GASB Cod. 2300.106 (n))
- Budget basis of accounting
- Budget/GAAP reporting differences not otherwise reconciled in the General Purpose Financial Statements (GASB Cod. 2300.107 (e))

VIII. Required Supplementary Information Other Than MD&A
B. Modified Approach for Reporting Infrastructure

Q1 -

IX. Auditor Related Issues

Q1 - GASB 34 made reporting of required supplemental information (RSI) a part of the general purpose financial statements. Previously in only rare cases did a government reflect RSI in its annual report. What impact does this have on the auditor's opinion?

A - (Allen, Green & Company, Certified Public Accountants) The AICPA Codification of Statements on Auditing Standards (AU) Section 558 provides auditors with guidance regarding assurance on RSI. Only limited procedures are required. These limited procedures do not rise to the level of audit work necessary for an auditor to express an opinion.

Q2 - Does the auditor's materiality calculation change as a results of the new reporting model which includes both the new aggregated government-wide financial statements and the traditional fund financial statements with some format changes and the reporting of major funds rather than reporting by fund-type?

A - (Allen, Green & Company, Certified Public Accountants) The auditor's decision was ground in this auditor's interpretation of paragraphs 3.12 and 3.13 of the AICPA Audit and Accounting Guide for Audits of State and Local Governmental Units. Our literal interpretation of those two paragraphs is that the auditor should be planning his audit and expressing his opinion on the individual columns in the basic financial statements, unless the auditor has been engaged to issue full assurance on the combining and individual funds statements and schedules.

Accordingly, this auditor's calculation of materiality was at the individual column level. This auditor's perspective is that the government-wide financial statements are simply an aggregation of the amounts included in the fund financial statements, after adjusting for the items necessary to reconcile the fund financial statements and the government-wide financial statements. These reconciling items are a result of the fund financial statements being prepared on an current resources measurement focus and modified accrual basis of accounting, whereas the government- wide financial statements are prepared using an economic resources measurement focus and accrual basis of accounting. Furthermore, by calculating materiality at the individual columns in the fund financial statements, the materiality would generally be based on the lowest column amounts in the basic financial statements. Therefore, no materiality calculation was necessary for the government-wide financial statements.

Practitioners around the country are not unanimous regarding the interpretation of paragraphs 3.12 and 3.13 of the AICPA Audit and Accounting Guide for Audits of State and Local Governmental Units. Some interpret the paragraphs as the auditor is required to plan his audit at the individual column level, but the auditor is opining on the general-purpose financial statements (meaning that the opinion is on the financial statements taken as a whole, not an opinion on the individual columns)).

Q3 - AU Section 551.15 states that when supplementary information required by the FASB or GASB is presented outside the basic financial statements in an auditor-submitted document, the auditor should disclaim an opinion on the information unless he has been engaged to examine and express an opinion on it. Will we be required to disclaim an opinion on the required supplemental information?

A - (Allen, Green & Company, Certified Public Accountants) An auditor-submitted document is financial reports that are included in the auditor's cover (name of the firm is displayed). In contrast, client-prepared documents include financial reports prepared by the client but merely reproduced by the auditor on the client's behalf. The distinction is important because AU Section 558.08 provides that for client-prepared documents, the auditor need not add an explanatory paragraph to his report on the audited financial statements to refer to the supplementary information or to his limited procedures, except under certain circumstances. Most governmental audits probably fall under "auditor-submitted documents." Entities that prepare CAFRs fall under "client-prepared documents" (GFOA requires that the financial report be submitted in the entity's cover).

Although there are both "client-prepared" and "auditor submitted" documents, I am taking the conservative approach and recommending that the requirements for "auditor submitted documents" be followed. This will provide consistency in reporting and eliminate the debate of whether the financial reports are client-prepared or auditor submitted documents.

Q4 - The primary government (police jury) implemented GASB 34 for 2002 (a year early). We are auditing a component unit that is not prepared to implement GASB 34 for 2002. What reporting, disclosure, internal control and compliance issues are there with the component unit not implementing GASB 34 for 2002?

A - GASB Statement No. 34 paragraph 143 states, "All component units should implement the requirements of this Statement no later than the same year as their primary government, regardless of the amount of each component unit's total revenues."

It is the opinion of GASB that once the primary government implements GASB 34, the component units should also implement GASB 34. Therefore, if the component unit does not implement GASB 34, the auditor's report should be modified.

Impact on auditor's report:

* If the component unit is a governmental fund, there is a GAAP departure as the GASB 34 basic financial statements are clearly different. Therefore, the auditor's report should be modified. In addition, although the required supplementary information is not a required part of the basic financial statements, the auditor would be required to include an explanatory paragraph because the supplementary information that GAAP requires to be presented is omitted (see AU Section 558.08).

* If the component unit is an enterprise fund, there may not be as many differences as in a governmental fund discussed above, but there are differences in format and terminology. In addition, the cash flow statement must be prepared on the direct method. The required supplementary information should be handled the same as mentioned above.

Q5 – From a practical standpoint, some smaller governments might consider it an acceptable option to omit the MD&A and have the explanatory paragraph in the auditor's report (see GASB 34 paragraph 292). What is the impact of excluding MD&A?

A – Paragraph 8 of GASB 34 states, in part, "The basic financial statements should be preceded by MD&A, which is required supplementary information (RSI)." Therefore, MD&A is supplemental information that is necessary to supplement, although not required to be part of, the basic financial statements.

The exclusion of MD&A requires that the auditor include an explanatory paragraph to the auditor's report because the supplementary information that GAAP requires to be presented is omitted (see AU Section 558.08). Because the omission is so significant to require a supplemental paragraph in the auditor's report, it also will violate Louisiana Revised Statute 24:514 which requires that annual financial statements be prepared in accordance with generally accepted accounting principles. (Note: there are certain small agencies that are excluded from this requirement.) Therefore, the auditor should determine if a comment in the auditor's report on compliance is appropriate.

In addition, because MD&A is intended to be an easily readable analysis of the government's financial activities which may be the only part of the report that some readers of financial statements may review, we encourage auditors to stress the importance to their clients in fully implementing GASB 34.